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Six (6) Month Progress Report on Contract for Professional Services between:

The Commission: Midwest/China Hub Commission, St. Louis and Economic Council: Economic Council of St. Louis County, St. Louis

and

AeroStrata LLC

July 2010

CREATED BY:

AeroStrata LLC

**4265 San Felipe, Suite 1200
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Contract Summary:

Proposal prepared and submitted by AeroStrata on September 17, 2009

Contract approved and signed by January 22, 2010

Purchase Order 10-1218

Scope of Services:

To deliver on the vision of the Midwest China Hub Commission towards operating regular cargo flights between China and St. Louis.

Project Information:

First month of operation under this contract: January 2010

The baseline for all activities is the AeroStrata project plan that has been provided to and has been approved by the MCHC.

A detailed review meeting of the project plan was conducted with Mr. Richard McClure on behalf of the MCHC in early January of 2010.

Monthly activity reports have been provided and were discussed either in person or over the phone with members of the MCHC.

A personal briefing of Governor Nixon took place in Jefferson City, MO on March 15

Executive Summary

In March of 2009, after a Commission sponsored trip to Beijing, Hainan Airlines and its affiliate, Yangtze River, enthusiastically agreed to engage in joint study activities to evaluate the financial feasibility of a new air-cargo service between China and Lambert-St. Louis International Airport. The Funding to retain our consulting services to assist in the joint engagement began only in January of 2010.

Since our engagement we have moved from a dead stop to renewed and real Chinese engagement. We have met our midterm targets.

In March 2010, after meetings in China, we succeeded in obtaining the agreement of the CAAC and four (4) Chinese air-cargo carriers to participate in the Joint Feasibility Study attached hereto as Exhibit "A".

In June 2010, CAAC Deputy Director Yang Jiru stated to Commission representatives, in Freight Forwarder meetings in Shanghai, that "the CAAC attaches great importance to this project and that from China's perspective there are no obstacles for China air-cargo carriers to create a hub in St. Louis." The Deputy Director also stated that the CAAC will provide preferential policies and pricing to support the proposed route.

In keeping with these statements and CAAC's March commitments, the CAAC will lead a delegation of Chinese air-cargo carriers, and freight forwarders, to St. Louis in late August to commence Joint Study activities, confirm market size data and discuss, in detail, the start-up considerations involved in the proposed route.

The late August trip is a very positive indication that the progress is real. It is now important to continue and support this complex process in a meaningful way that will hopefully end in creating an understanding on potential route start-up investments and how the risk of those will be shared -- and a decision to green light a new cargo service between St. Louis and China.

For reasons of simplicity and clarity, we have structured our six (6) months summary into a SWOT analysis, which highlights the different areas of our findings so far.

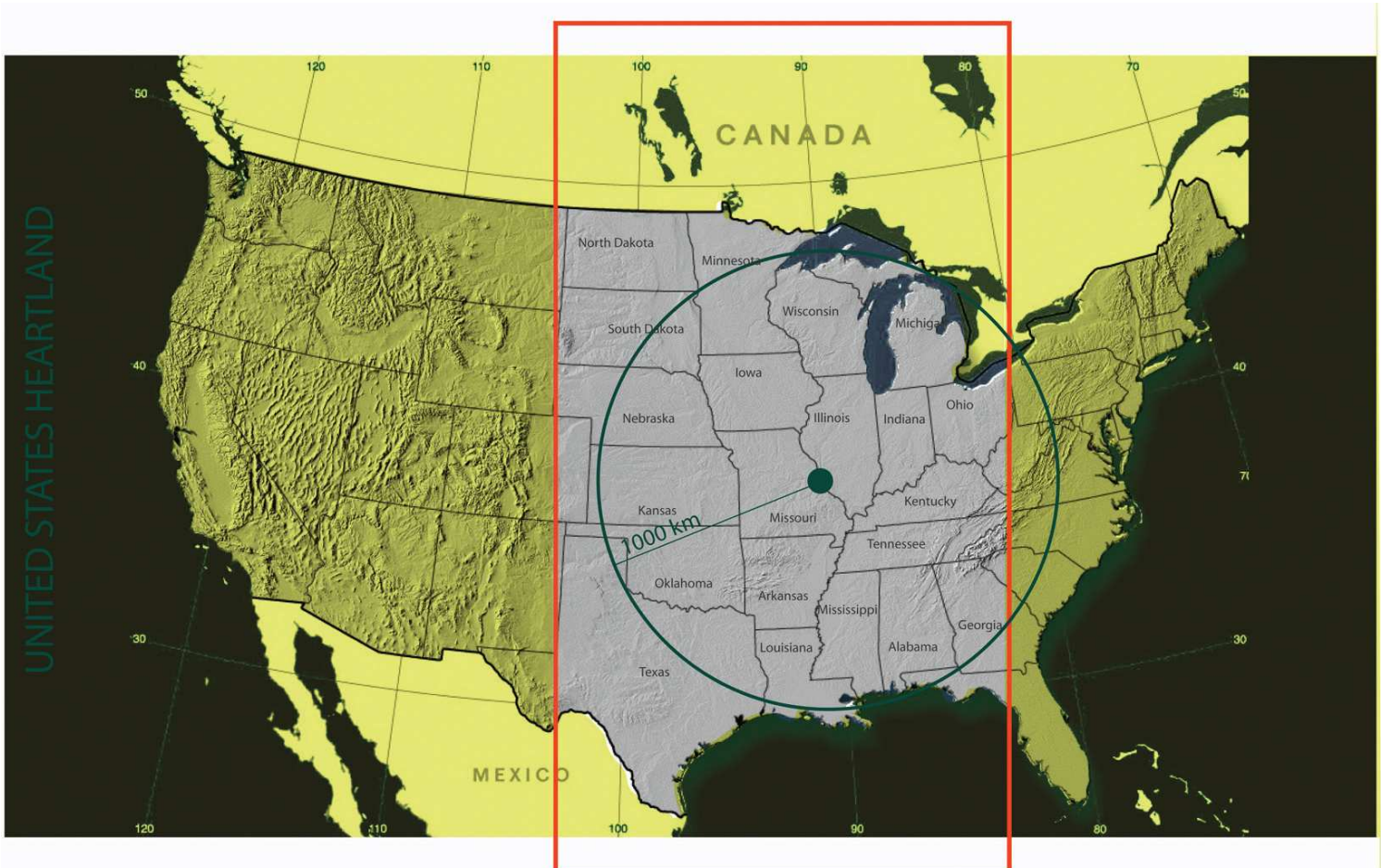
SWOT Analysis

Strength:

- Lambert is a No-Slot airport, unrestricted access, no congestion or delay issues
- Geographic location of St. Louis allows for overnight connection to/from all major Midwest business centers.
- U.S Customs at Lambert St. Louis International Airport provides a fast, efficient and easy clearance process, thereby significantly improving total transit times for import cargo as opposed to airports such as Chicago. Customs Clearance processing times of more than eight (8) hours are being regularly experienced at O'Hare in comparisons to average clearance time of thirty (30) minutes in St. Louis.
- The average taxi time for an aircraft at Lambert from off-block to take-off is five (5) minutes or less. This is a significantly better performance than the regular delays of forty-five (45) minutes or more for the freighter aircraft taxi-time that are being recorded in O'Hare due to heavy congestions.
- The surge in air cargo during the last nine (9) months in both directions (export and import) has created a demand for additional flights and new routes, especially due to the significant congestion that is now being experienced at Chicago O'Hare.
- Major international Freight Forwarding companies (DHL, Expeditors, Panalpina, K+N, Agility, Phoenix, CEVA, UPS, Kintetsu) are looking for alternative airports to Chicago, since many of their customers' supply chains are being affected by constant delays and congestions.
- In both China and the U.S., airlines and forwarders alike are now fully informed about Lambert, St. Louis, the state of Missouri, the geographic and multi-modal advantages, as well as other values it provides over legacy cargo airports such as Chicago O'Hare.

Weakness:

- The St. Louis and Missouri region does not generate enough export traffic by air to fill regular scheduled cargo flights to Shanghai on its own. Surrounding states making up the Midwest region must be included to generate the demand, something that was anticipated before the study began.



- A significant amount of export cargo bound for China will need to be re-directed from other areas, such as Dallas, Atlanta, and Chicago.
- Some infrastructure elements at the airport are still missing or need further improvement (facilities, loading/unloading equipment).
- Even though airlines are frustrated about the delays and congestions that are being experienced in Chicago, there is still hesitation in considering a new and unproven point of entry in the Midwest.

Opportunities:

- The agreed visit by numerous Chinese Carriers under the leadership of CATA to St. Louis in July/August should provide additional opportunities for dialogue that will move the project forward.
- The feedback from airlines and forwarders in China and South America to combine Asia with Latin America flights in St. Louis is being recognized as having even higher strategic value for all parties. The lack of access of cargo space between Latin America and China and vice versa is hampering economic growth and a new route via St. Louis will significantly improve such a situation.

Threats:

- At the current time, the review and analysis of any potential incentive requirements is still ongoing. Currently, Lambert-St. Louis International Airport offers a specific incentive program for transoceanic flights (with a two year commitment) which waives their Landing Fees for twelve months and partially waives Terminal Building Rents. Further analysis will validate if additional incentive plans may be needed.
- If needed, such incentive models require a short finalization period.
- The current consolidation phase of the Chinese Airlines creates different scenarios for each of them. This process might affect an individual carrier's ability to move forward with the St. Louis option.

Major Findings

- Lambert-St. Louis International Airport major infrastructure components:

- Runways
- Ground handling
- Warehouse

All sufficient to manage and handle wide body air cargo flights from China. A recent on-site visit by a major international logistics firm has provided validation.

- Customs and Border Protection (CBP) on Site at Lambert St. Louis International Airport is a major value differentiator for the airport specifically in comparison to Chicago O'Hare. CBP's efficiency, speed, and flexibility at Lambert are creating significant time and financial benefits for Airlines, Forwarders and most of all importers and exporters.
- The understanding, support and encouragement received from organized labor throughout this entire project has been outstanding and is another dominant value driver when this project moves into an operational phase.
- The continuous engagement and support from private businesses and civic leaders ensures that this initiative is receiving such high visibility and acceptance in China and the Midwest.
- The global airfreight industry continued its stunning comeback in May from the shambles of early 2009, reporting a 34.3% increase in volumes over the same period a year ago, the International Air Transport Association (IATA) reported in June. Moreover, the world's airports showed very healthy gains in air cargo volumes during May-2010, according to new figures from Airports Council International (ACI). The airports body noted that air freight growth is dominated by demand for international shipments, with major international freight hubs registered record volume increases, such as Shanghai Pudong (+59%), Hong Kong (+42%), Taipei (+53%), Chicago O'Hare (+47%), Dubai (+33.5%), New York JFK (+32%) and Frankfurt (+40%). Also, according to Shanghai Daily News, Exports to the Chinese mainland and Hong Kong rose 62 percent to a record high of US\$56.7 billion during the period.

- The 2010 YTD air export tonnage from Chicago to China grew by over 100% in comparison to the same timeline of 2009. The current run-rate points to the fact that by the end of 2010, the air export tonnage will have surpassed the previous record mark of 2008 by a significant margin.
- Surge in Air cargo volumes drives companies to look for alternative airports to circumvent the major delays experienced in larger airports such as Chicago O'Hare. Some Forwarders are using Los Angeles instead and trucking cargo to the Midwest due to the long delays and congestion in Chicago.
- Geographical advantages of Lambert-St. Louis International Airport and its Multimodal access are now being widely recognized throughout the international transportation industry in both China and USA.
- A Chinese Delegation to inspect and visit Lambert St. Louis International Airport in August.
- Demand continues to outpace capacity for the transpacific air routes.

Project Plan Summary

Milestone 1 deliverables	Status	Remarks
Assessment of critical participants	Mostly completed	Pricing/Cost will be completed in Q3
Gap Analysis (SWOT)	Completed	
Image Marketing Plan	Completed	
Develop PowerPoint presentations based on the Assessment, existing information	Completed	
Meeting with Shippers (Emerson, Monsanto, etc)	Completed	
Relationship building and Negotiation with Forwarders and Shippers in USA locally	Completed	
Identifying and Meeting with the target Airlines (first visit in March)	Completed	
Various Meetings with MCHC and other parties	Completed	
Analyze and identify the potential top airlines to pursue	Completed	
Milestone1 March 31, 2010		
Milestone 2 deliverables	Status	Remarks
Create General Tradeshow PowerPoint presentation	In Progress	Completion in Q3
Discuss potential roadblocks/issues for Target Airlines	Completed	
Chamber of Commerce presentation	Delayed	Completion in Q3
Top 50 importer/exporter discussion	In Progress	Shippers Council First round of content completed.
Marketing Material for the website	In Progress	Updates follow ups pushed to Q3 and Q4
Provide content for the Cargo Brochure	In Progress	Completion in Q3
Marketing plan for Trade Show	Delayed	Completion in Q3
Marketing - Interviews in Trade Magazines	Delayed	Completion in Q3
Creation of Shippers Council	In Progress	Completion in Q3
Follow up meetings (second round) with Chicago forwarders	Completed	Pushed forward to Q2
Price and Service requirements for Forwarders	Completed	Pushed forward to Q2
2nd round Identifying and Meeting with the target Airlines (2nd round, June Trip)	Completed	
Incentives discussions with Forwarders	In Progress	Pushed forward to Q2
Relationship Building with Forwarders and Shippers in China (June Trip)	Completed	
Various Meetings with MCHC and other parties	Completed	
DHL discussions and meetings	In Progress	Added to the scope
Milestone 2 June 30, 2010		

Budgeted Man-days for January to June 2010: 335 Man-days

Actual Man-days spent for January to June 2010: 233 Man-days

70% of the Budgeted Man-days from January to June 2010 were used.

Monthly Report Summary

Below please find a brief summary of the monthly reports submitted to the MCHC.

1) January

Task	Action Item
Assessment of Lambert-St. Louis Cargo Facilities South Side (Airport Controlled Property) North Side (Haith Building)	Conduct formal engineering study. More information (commodity and build up) is required to assess building viability – April. Receiving cost proposal – February
Airport Comparison - Lambert vs. Mid America	Infrastructure comparison. For more details refer to January 2010 Monthly Activity report attached.
Assessment of Ground Handling Capabilities at St. Louis	Receive Pricing Components from Ground Handling Companies including Renting vs. Investing in the new Equipments – February
Trucking St. Louis – Chicago St. Louis – Atlanta St. Louis – Dallas	Conduct Full Truck Load cost comparison vs. Less than Full load. Identify tonnage potential out of Dallas, recognize minimum tonnage requirement for efficient pricing, and how to bridge the gap if the two volumes differ
Assessment of U.S. Customs in St. Louis	Continuous communication and update with the Customs and Border Protection.
Assessment of Freight Forwarders located in St. Louis	Discussions with the gateways offices in Chicago will determine the real possibilities.
Discussion with numerous shippers in the greater St. Louis region.	Shippers remain carrier neutral. Final decision for the routing/carrier selection rest with forwarders.

2) February

Task	Action Item
Forwarder Assessment in Dallas	<p>Positive reception and willingness for general support.</p> <p>Questions around frequency, schedules, pricing will need to be answered before more formal commitments can be expected.</p>
Forwarder Assessment in Chicago in Chicago	<p>Positive reception and willingness for general support.</p> <p>Questions around frequency, schedules, pricing will need to be answered before more formal commitments can be expected.</p>
Forwarder Feedback in Atlanta	<p>Positive reception and willingness for general support.</p> <p>Questions around frequency, schedules, pricing will need to be answered before more formal commitments can be expected</p>
<p>High Level Cost Analysis</p> <p>For Airport related elements</p>	<p>Answers in respect to different incentive models will be required in order to finalize overall competitiveness with other airports. Further analysis will validate if additional incentive models are needed.</p>
Initial Marketing Input on Airport B2B Cargo website	<p>Provided initial feedback on Cargo Website links. Will provide content for the links in the coming months.</p>
Continuation of discussion with numerous Shippers in St. Louis area	<p>There was enthusiasm about the possibility of a direct air service and indicated the possibility to change for some of their strategic planning and investments in the event that such a service would take off.</p>
Airline Specific Questions / Topics	<p>Outlined key questions and topics that will need to be explored and discussed with any of the interested Chinese Carriers. For more details refer to Airline Joint Feasibility Study report attached.</p>

3) March

Task	Action Item
CAAC meeting	Vice Minister Xinghau supported the joint study and recommended participating airlines to take part in the study.
China Southern	China Southern showed initially little interest in communicating with us after the CAAC meeting. A personal visit to their home office in Guangzhou for a one-on one meeting is suggested.
China Cargo Airline meeting	Top management supports considering participating in the joint study.
Hainan meeting	Hainan's Chairman has concerns over commercial viability of the China-St. Louis flight. Requires further follow up meeting.
Air China Cargo	One of the main targets for us to work for joint feasibility study. Need to follow up to setup a firm date to start the study
Jade Cargo	Very interested in working with us on the joint study.

4) April

Task	Action Item
Identifying Main Cargo Topics and Content for the new Cargo Website	Meetings were held with Brian Kinsey and his Marketing Team to identify and finalize the main Cargo Topics and sections that should be included in the new B2B cargo Website for Lambert. AeroStrata also provided the content for the Cargo Specific sections.
Bogota Trip	AeroStrata accompanied the Marketing Manager of Lambert, Brian Kinsey, on a visit to Bogota, Columbia. Reason for the visit was an invitation by a flower exporter who was/is considering introducing a Bogota/St. Louis Cargo operation. At the same time some shippers as well as large forwarders were visited.
LEC meeting in St. Louis, MO	Also LEC visited St. Louis in May and a strategy session was held between LEC, Lambert and AeroStrata. Rhonda Hamm-Niebruegge represented Lambert. MCHC was represented by Steven Stone.
Meetings with Shippers in Missouri	Personal visits were made to a number of Shippers in Missouri. Some of these companies will be represented on the newly formed shipper's council.

5) May

Task	Action Item
Follow up visit with Chicago Forwarders	Provided update on the progress of the project and asked for the support to secure meetings with their counterparts in Shanghai.
Preparation and scheduling meetings between MCHC and major Forwarding companies in Shanghai and Beijing	<p>In preparation for the June China visit a great length of time was spent on communicating and setting up appointments with the forwarders in China.</p> <p>Presentations for the June meetings with the Chinese Airlines as well as the forwarders were developed and hand out material created.</p> <p>We were also successful in obtaining appointments with Chinese Forwarders Organization as well as with the largest Chinese Freight forwarder Sino Trans.</p>

6) June

Task	Action Item
Discussions with Chinese Carriers during a CATA sponsored conference	<p>LEC had successfully set up the airline meetings (through CATA = China Air Transportation Association). Representatives from four Chinese Cargo Airlines were in attendance. Several representatives of CATA as well as a representative of CAAC were in attendance.</p> <p>Presentations about the advantages of operating into Lambert lead to a discussion and to a question and answer session. The Chairman of the meeting Mr. Duan Kaihong, Vice Secretary – General of CATA concluded the meeting with the statement that CATA will organize for an airline delegation to visit St. Louis sometimes during the month of July.</p>
Meetings with major Freight Forwarding companies in Shanghai	<p>Eleven very positive face-to-face and two telephone meetings with large international forwarders were held.</p> <p>A huge surge in traffic (both ways) has created tremendous backlogs. O'Hare is experiencing significant congestion problems and customs delays. Forwarders are looking for alternative routes.</p> <p>Forwarders are prepared to ship via Lambert, if such service would be offered by any airline, however express concerns about the available infrastructure in comparison to the established routes and services via Chicago. Forwarders are also skeptical about any Chinese carrier having the foresight and willingness to establish service into an unknown location.</p>

<p>Meeting with Chinese Freight Forwarding Association and Sinotrans</p>	<p>Meetings were held in Beijing with the Chinese Freight Forwarders Association as well as with Sinotrans, China's largest logistics and shipping firm. Both entities would support a Chinese Cargo carrier in its possible efforts to operate into Lambert. Furthermore, Sinotrans has just entered into a strategic partnership with China Southern.</p> <p>An invitation to present St. Louis at the Annual Meeting of the China Freight Forwarders Association in Hong Kong in September was extended to us.</p>
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